



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE July 2, 2004

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of What Cheer, Iowa.

The City's receipts totaled \$401,767 for the year ended June 30, 2003. The receipts included \$88,344 in property tax, \$68,620 from other governments and \$5,213 in interest on investments.

Disbursements for the year totaled \$330,694, and included \$138,184 for business type activities, \$75,551 for public works and \$54,828 for general government.

The report contains recommendations to the City Council and other City officials. For example, operating procedures should be reviewed to obtain the maximum internal control possible. Monthly receipts and disbursements recorded should be reconciled to the bank each month. Also, procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. All utility records should be retained and adjustments or reversals made to individual accounts should be approved by an independent person prior to posting. The City has responded favorably to the comments.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

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CITY OF WHAT CHEER

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2003

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City of What Cheer

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Rhonda Thomas	Mayor	Jan 2004
Sandra VanPatten	Mayor Pro tem	Jan 2004
Bill Thomas	Council Member	Resigned
Joan Ferns	Council Member	Jan 2004
Bill Bos	Council Member	Jan 2004
Linda Foubert	Council Member	Jan 2004
Robin Gragg (Appointed)	Council Member	Nov 2004
Heather Davis	City Clerk	Resigned
Marla Ehert (Appointed)	City Clerk	Indefinite
Joel Yates	Attorney	Indefinite

City of What Cheer



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the City of What Cheer, Iowa, as of and for the year ended June 30, 2003. These financial statements are the responsibility of the City of What Cheer's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2002.

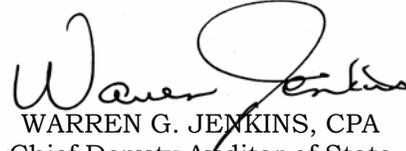
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2002, as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of What Cheer as of and for the year ended June 30, 2003, and its indebtedness at June 30, 2003, on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our report dated February 19, 2004 on our consideration of the City of What Cheer's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The supplemental information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2002, as discussed in the third paragraph, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 19, 2004

Financial Statements

City of What Cheer

Combined Statement of Cash Transactions

All Fund Types

Year ended June 30, 2003

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Receipts:			
Property tax	\$ 45,116	7,256	35,972
Other city tax	6,300	687	3,687
Licenses and permits	890	-	-
Use of money and property	6,133	-	-
Intergovernmental	13,422	55,198	-
Charges for service	31,008	-	-
Special assessments	4,313	-	-
Miscellaneous	14,198	26	-
Total receipts	<u>121,380</u>	<u>63,167</u>	<u>39,659</u>
Disbursements:			
Public safety	3,852	-	-
Public works	23,998	51,553	-
Culture and recreation	16,226	-	-
General government	54,441	387	-
Debt service	-	-	42,053
Business type activities	-	-	-
Total disbursements	<u>98,517</u>	<u>51,940</u>	<u>42,053</u>
Excess (deficiency) of receipts over (under) disbursements	<u>22,863</u>	<u>11,227</u>	<u>(2,394)</u>
Other financing sources (uses):			
Operating transfers in	2,782	-	-
Operating transfers out	(2,782)	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	<u>22,863</u>	<u>11,227</u>	<u>(2,394)</u>
Balance beginning of year	<u>38,628</u>	<u>108,373</u>	<u>38,085</u>
Balance end of year	<u>\$ 61,491</u>	<u>119,600</u>	<u>35,691</u>

See notes to financial statements.

<u>Proprietary Fund Type</u>	<u>Fuduciary Fund Type</u>	Total (Memorandum Only)
Enterprise	Trust	
-	-	88,344
-	-	10,674
-	-	890
-	-	6,133
-	-	68,620
177,561	-	208,569
-	-	4,313
-	-	14,224
<u>177,561</u>	<u>-</u>	<u>401,767</u>
-	-	3,852
-	-	75,551
-	-	16,226
-	-	54,828
-	-	42,053
138,184	-	138,184
<u>138,184</u>	<u>-</u>	<u>330,694</u>
<u>39,377</u>	<u>-</u>	<u>71,073</u>
-	-	2,782
-	-	<u>(2,782)</u>
-	-	-
39,377	-	71,073
<u>103,709</u>	<u>25,000</u>	<u>313,795</u>
<u>143,086</u>	<u>25,000</u>	<u>384,868</u>

Exhibit B

City of What Cheer

Comparison of Receipts, Disbursements and Changes in Balances -

Actual to Budget

Year ended June 30, 2003

	Actual	Amended Budget	Variance Favorable (Unfavorable)	Net as % of Amended Budget
Receipts:				
Property tax	\$ 88,344	81,748	6,596	108%
Other city tax	10,674	8,843	1,831	121%
Licenses and permits	890	1,000	(110)	89%
Use of money and property	6,133	15,000	(8,867)	41%
Intergovernmental	68,620	73,310	(4,690)	94%
Charges for service	208,569	215,000	(6,431)	97%
Special assessments	4,313	-	4,313	
Miscellaneous	14,224	5,000	9,224	284%
Total receipts	<u>401,767</u>	<u>399,901</u>	<u>1,866</u>	<u>100%</u>
Disbursements:				
Public safety	3,852	19,400	15,548	20%
Public works	75,551	71,060	(4,491)	106%
Culture and recreation	16,226	8,500	(7,726)	191%
General government	54,828	48,387	(6,441)	113%
Debt service	42,053	37,554	(4,499)	112%
Business type activities	138,184	215,000	76,816	64%
Total disbursements	<u>330,694</u>	<u>399,901</u>	<u>69,207</u>	<u>83%</u>
Excess of receipts over disbursements	71,073	-		
Balance beginning of year	<u>313,795</u>	<u>313,451</u>		
Balance end of year	<u>\$ 384,868</u>	<u>313,451</u>		

See notes to financial statements.

City of What Cheer

City of What Cheer
Statement of Indebtedness
Year ended June 30, 2003

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Capital loan	Sep 2, 1993	4.80%	\$ 65,000
Water and refunding	Nov 1, 1998	4.00 - 4.70	215,000
Total			
Revenue notes:			
Sewer	Nov 1, 1988	6.00 - 7.50%	\$ 200,000
Water	Nov 1, 1988	4.30 - 5.00	500,000
Total			
Loan agreements:			
Keokuk County:			
Fairground road paving	Jul 1, 1993	0.00%	\$ 80,329
Water well capping and related work project	Apr 30, 1994	0.00%	35,137

See notes to financial statements.

Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid	Unpaid Interest
20,000	10,000	10,000	480	480
145,000	25,000	120,000	6,423	-
<u>\$ 165,000</u>	<u>35,000</u>	<u>130,000</u>	<u>6,903</u>	<u>480</u>
40,000	20,000	20,000	2,625	375
460,000	10,000	450,000	22,753	-
<u>\$ 500,000</u>	<u>30,000</u>	<u>470,000</u>	<u>25,378</u>	<u>375</u>
32,132	10,711	21,421	-	-
11,925	6,000	5,925	-	-
<u>\$ 44,057</u>	<u>16,711</u>	<u>27,346</u>	<u>-</u>	<u>-</u>

City of What Cheer

Notes to Financial Statements

June 30, 2003

(1) Summary of Significant Accounting Policies

The City of What Cheer is a political subdivision of the State of Iowa located in Keokuk County. It was first incorporated in 1865 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, general government and business type activities.

A. Reporting Entity

For financial reporting purposes, the City of What Cheer has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City of What Cheer has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Keokuk County Assessor's Conference Board, Keokuk County Emergency Management Commission and Keokuk County Joint E911 Service Board.

Joint Venture

The City participates in What Cheer Fire and Rescue, Inc. The joint venture is made up of the cities of What Cheer, Thornburg, Gibson and Rose Hill and White Oak, Washington, Prairie and Van Buren townships. The venture was developed as the result of an agreement between cities and townships.

B. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and balances. The various funds and their designated purposes are as follows:

Governmental Funds

General Fund – The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid through other funds.

Special Revenue Funds – The Special Revenue Funds are utilized to account for receipts derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

Debt Service Fund – The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation long-term debt.

Proprietary Funds

Enterprise Funds – The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Fiduciary Funds

Trust Fund – The Trust Fund is used to account for monies and properties received and held by the City in a trustee capacity. This includes the Non-expendable Trust Fund.

C. Basis of Accounting

The City of What Cheer maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the City Council annually adopts a budget on the basis of cash receipts and disbursements following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities.

E. Total (Memorandum Only)

The total column on the combined statement of cash transactions is captioned "Memorandum Only" to indicate it is presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2003 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

(3) Notes Payable

Annual debt service requirements to maturity for general obligation and revenue notes are as follows:

Year Ending June 30,	General Obligation Notes							
	Issued Sep 2, 1993			Issued Nov 1, 1998			Total	
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest
2004	4.80%	\$ 10,000	480	4.30%	\$ 25,000	5,360	\$ 35,000	5,840
2005	-	-	-	4.35	15,000	4,285	15,000	4,285
2006	-	-	-	4.40	15,000	3,632	15,000	3,632
2007	-	-	-	4.45	15,000	2,972	15,000	2,972
2008	-	-	-	4.50	15,000	2,305	15,000	2,305
2009	-	-	-	4.60	15,000	1,630	15,000	1,630
2010	-	-	-	4.70	20,000	940	20,000	940
Total		<u>\$ 10,000</u>	<u>480</u>		<u>\$ 120,000</u>	<u>21,124</u>	<u>\$ 130,000</u>	<u>21,604</u>

Year Ending June 30,	Revenue Notes							
	Issued Nov 1, 1988			Issued Nov 1, 1998			Total	
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest
2004	7.50%	\$ 20,000	1,500	4.60%	\$ 10,000	22,297	\$ 30,000	23,797
2005	-	-	-	4.65	10,000	21,837	10,000	21,837
2006	-	-	-	4.70	15,000	21,372	15,000	21,372
2007	-	-	-	4.75	15,000	20,667	15,000	20,667
2008	-	-	-	4.80	15,000	19,955	15,000	19,955
2009	-	-	-	4.90	15,000	19,235	15,000	19,235
2010	-	-	-	5.00	370,000	18,500	370,000	18,500
Total		<u>\$ 20,000</u>	<u>1,500</u>		<u>\$ 450,000</u>	<u>143,863</u>	<u>\$ 470,000</u>	<u>145,363</u>

The resolutions providing for the issuance of the revenue bonds were not available. Therefore, any applicable provisions are not described in this note.

(4) Loan Agreements

On July 1, 1993, the City entered into a loan agreement with Keokuk County for \$80,329 for fairground road paving. The interest free loan requires fifteen (15) annual payments of \$5,355, beginning July 1993. During the year ended June 30, 2003, the City paid \$10,711, leaving an unpaid balance of \$21,421 at June 30, 2003. This loan was paid in full on October 17, 2003.

On April 30, 1994, the City started a water well capping and related work project. The total cost of the project was \$35,157. Monthly payments of \$500 per month were made during the year ended June 30, 2003 on this interest free loan agreement. During the year ended June 30, 2003, the City paid \$6,000, leaving an unpaid balance of \$5,925 at June 30, 2003. This loan was paid in full on November 14, 2003.

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2003 was \$1,028, equal to the required contribution for the year.

(6) Local Government Risk Pool

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 475 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public official liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2003 were \$4,357.

The Pool uses reinsurance and excess risk sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. All property risks, including automobile physical damage are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2003, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility for the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

(7) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the function level. During the year ended June 30, 2003, disbursements in the public works, culture and recreation, general government and debt service functions exceeded the amounts budgeted.

Supplemental Information

Schedule 1

City of What Cheer
Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

	General	Library	Bandstand Restoration	Total
Receipts:				
Property tax	\$ 45,116	-	-	45,116
Other city tax:				
Utility tax replacement excise tax	4,469	-	-	4,469
Cable franchise fee	1,831	-	-	1,831
	<u>6,300</u>	-	-	<u>6,300</u>
Licenses and permits	890	-	-	890
Use of money and property:				
Interest on investments	4,217	993	3	5,213
Rent	920	-	-	920
	<u>5,137</u>	<u>993</u>	<u>3</u>	<u>6,133</u>
Intergovernmental:				
State allocation	8,046	-	-	8,046
Bank franchise tax	645	-	-	645
Open access	-	153	-	153
Enrich Iowa grant	-	752	-	752
County/township library	-	3,826	-	3,826
	<u>8,691</u>	<u>4,731</u>	<u>-</u>	<u>13,422</u>
Charges for service:				
Garbage collections	31,008	-	-	31,008
Special assesment	4,313	-	-	4,313
Miscellaneous:				
Donations	-	1,900	100	2,000
Bill Gates computer grant	-	7,700	-	7,700
Fines and fees	1,188	-	-	1,188
Miscellaneous	2,999	311	-	3,310
	<u>4,187</u>	<u>9,911</u>	<u>100</u>	<u>14,198</u>
Total receipts	<u>105,642</u>	<u>15,635</u>	<u>103</u>	<u>121,380</u>

City of What Cheer
 Schedule of Cash Transactions
 General Fund
 Year ended June 30, 2003

	General	Library	Bandstand Restoration	Total
Disbursements:				
Public safety:				
Fire protection:				
Services and commodities	3,852	-	-	3,852
Public works:				
Landfill fees	23,998	-	-	23,998
Culture and recreation:				
Library:				
Personal services	-	7,979	-	7,979
Services and commodities	-	1,742	-	1,742
Capital outlay	-	4,423	-	4,423
	-	14,144	-	14,144
Parks:				
Personal services	2,082	-	-	2,082
	2,082	14,144	-	16,226
General government:				
Mayor and council members:				
Personal services	2,908			2,908
Financial administration:				
Personal services	6,275	-	-	6,275
Elections	375	-	-	375
Legal services	3,135	-	-	3,135
City hall and general buildings:				
Personal services	16,544	-	-	16,544
Tort liability	4,357	-	-	4,357
Demolition of theater	4,903	-	-	4,903
Other administrative expenses	15,944	-	-	15,944
Total disbursements	84,373	14,144	-	98,517
Excess of receipts over disbursements	21,269	1,491	103	22,863

Schedule 1

City of What Cheer
Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

	General	Library	Bandstand Restoration	Total
Other financing sources (uses):				
Operating transfers in (out):				
General:				
General	-	2,782	-	2,782
Library	(2,782)	-	-	(2,782)
Total other financing sources (uses)	(2,782)	2,782	-	-
Excess of receipts and other finances sources over disbursements and other financing uses	18,487	4,273	103	22,863
Balance beginning of year	22,514	15,792	322	38,628
Balance end of year	\$ 41,001	20,065	425	61,491

See accompanying independent auditor's report.

City of What Cheer
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2003

	Road Use Tax	Employee Benefits	Total
Receipts:			
Property tax	\$ -	7,256	7,256
Other city tax:			
Utility tax replacement excise tax	-	687	687
Intergovernmental:			
Road use tax allocation	55,198	-	55,198
Miscellaneous	26	-	26
Total receipts	<u>55,224</u>	<u>7,943</u>	<u>63,167</u>
Disbursements:			
Public works:			
Street lighting	5,944	-	5,944
Roadway maintenance:			
Personal services	-	136	136
Roadway maintenance	34,762	-	34,762
Loan principal redeemed	10,711	-	10,711
	<u>45,473</u>	<u>136</u>	<u>45,609</u>
	<u>51,417</u>	<u>136</u>	<u>51,553</u>
General government:			
Mayor and council members:			
Personal services	-	19	19
City hall and general buildings:			
Personal services	-	368	368
	<u>-</u>	<u>387</u>	<u>387</u>
Total disbursements	<u>51,417</u>	<u>523</u>	<u>51,940</u>
Excess of receipts over disbursements	3,807	7,420	11,227
Balance beginning of year	<u>108,373</u>	<u>-</u>	<u>108,373</u>
Balance end of year	<u>\$ 112,180</u>	<u>7,420</u>	<u>119,600</u>

See accompanying independent auditor's report.

Schedule 3

City of What Cheer
Schedule of Cash Transactions
Debt Service Fund
Year ended June 30, 2003

Receipts:	
Property tax	\$ 35,972
Other city tax:	
Utility tax replacement excise tax	<u>3,687</u>
Total receipts	<u>39,659</u>
Disbursements:	
Debt service:	
Principal redeemed	35,000
Interest paid	6,903
Administration fees	<u>150</u>
Total disbursements	<u>42,053</u>
Deficiency of receipts under disbursements	(2,394)
Balance beginning of year	<u>38,085</u>
Balance end of year	<u>\$ 35,691</u>

See accompanying independent auditor's report.

City of What Cheer
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2003

	Water	Sewer Rental	Sewer Sinking	Total
Receipts:				
Charges for service:				
Sale of water	\$ 126,937	-	-	126,937
Sewer rental fees	-	50,624	-	50,624
Total receipts	<u>126,937</u>	<u>50,624</u>	<u>-</u>	<u>177,561</u>
Disbursements:				
Business type activities:				
Water utility	66,660	-	-	66,660
Sewer rental	-	9,706	-	9,706
Debt service:				
Loan principal redeemed	6,000	-	-	6,000
Note principal redeemed	10,000	20,000	-	30,000
Interest paid	22,753	2,625	-	25,378
Administration fee	440	-	-	440
Total disbursements	<u>105,853</u>	<u>32,331</u>	<u>-</u>	<u>138,184</u>
Excess of receipts over disbursements	21,084	18,293	-	39,377
Balance beginning of year	<u>12,265</u>	<u>41,067</u>	<u>50,377</u>	<u>103,709</u>
Balance end of year	<u>\$ 33,349</u>	<u>59,360</u>	<u>50,377</u>	<u>143,086</u>

See accompanying independent auditor's report.

Schedule 5

City of What Cheer
Combining Schedule of Cash Transactions
Trust Fund
Year ended June 30, 2003

	<u>Non-Expendable Trust Lucille M. Windette Library Trust</u>
Receipts: None	\$ -
Disbursements: None	<u>-</u>
Excess of receipts over disbursements	-
Balance beginning of year	<u>25,000</u>
Balance end of year	<u><u>\$ 25,000</u></u>

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of What Cheer, Iowa, as of and for the year ended June 30, 2003, and have issued our report thereon dated February 19, 2004. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2002.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of What Cheer's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2003 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of What Cheer's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of What Cheer's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A), (B) and (D) are material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of What Cheer and other parties to whom the City of What Cheer may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of What Cheer during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 19, 2004

City of What Cheer
Schedule of Findings
Year ended June 30, 2003

Findings Related to the Financial Statements:

INSTANCES ON NON-COMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. One person had control over each of the following areas for the City:

- (1) Cash – preparing bank reconciliations, initiating cash receipts and disbursement transactions and handling and recording cash.
- (2) Investments – detailed recording keeping, custody of investments and reconciling earnings.
- (3) Receipts – collecting, depositing, journalizing and posting.
- (4) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (5) Long Term Debt – recording and reconciling.
- (6) Disbursements – purchasing, check signing, recording and reconciling.
- (7) Payroll – preparing and distributing.
- (8) Transfers – Recording and reconciling.
- (9) Financial reporting – preparing, posting and reconciling.
- (10) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control activities to obtain the maximum internal control possible under the circumstances.

Response – City Clerk is the only employee so handles all of above, the Mayor also has done some of these tasks.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

City of What Cheer

Schedule of Findings

Year ended June 30, 2003

(B) Reconciliation of Utility Billings, Collections and Delinquencies – Testing of utility receipts identified the following:

- Utility billings, collections and delinquencies were not reconciled throughout the year. Reconciliations for two months prepared by the auditor identified small dollar variances for both months that could not be explained. Records were not available at the City to reconcile the variances.
- Two payments for \$101 were posted. However, neither could be traced to a deposit.
- A billing for \$46 and an adjustment for \$52 were posted to increase the balance owed. However, these entries were not paid or carried forward to the next month.
- Several late fees were applied to the balance and then an adjustment was made to remove them. These adjustments did not have Council approval.
- Utility records and files were not always printed or retained and those retained were not complete.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and also to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies. All City utility billing, collection, penalty and delinquent account print outs should be retained for each billing cycle. In addition, any adjustments or reversals of utility charges should be supported and approved by the Council or Council-designated independent person prior to the adjustment being made and the approval should be documented.

Response – City Clerk will keep all actual billings and take them to each monthly meeting to be looked over by Council members.

Conclusion – Response acknowledged. The City should establish written procedures to reconcile utility billings, collections and delinquencies for each billing period and also to reconcile collections to deposits.

(C) Records of Accounts – The What Cheer Library and the Bandstand Restoration maintain their own accounting records. These transactions and the resulting balances are not recorded in the City Clerk's records. Chapter 384.20 of the Code of Iowa states in part that a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.

Also, one individual performs all accounting functions for the What Cheer Library and no receipts are issued for collections received by the library. Also, the Library does not provide monthly financial reports to the City Council and/or the City Clerk.

City of What Cheer

Schedule of Findings

Year ended June 30, 2003

Recommendation – Internal control could be strengthened and operating efficiency could be increased by integrating the Library and Bandstand Restoration receipts and disbursements with the City accounting records in the City Clerk’s office. If the Library account is not combined with Clerk’s records, the Library should provide monthly financial reports with sufficient detail to accurately reflect the activity of the Library to the City Council monthly, accompanied by a bank to book balance reconciliation. Also, the Library should require the use of pre-numbered receipts for all library collections.

Response – The Library now provides a report each month that is given to City Council members.

Conclusion – Response acknowledged. The Library should require the use of pre-numbers receipts for all collections.

- (D) Monthly Financial Reports and Accounting Records – Monthly financial reports were not prepared and provided to the City Council each month. Also, bank to book balance reconciliations were not generated and subsidiary ledgers were not maintained for the year ended June 30, 2003.

Recommendation – Monthly receipts and disbursements should be reconciled to the bank each month and the reconciliation should be provided to the City Council for their review and approval. The reconciliations of the bank to the book balances should also be provided to the City Council to support the validity of the monthly financial report.

All of the recommended procedures should be detailed in written policy for guidance regarding City Clerk responsibilities and expectations.

Response – Financial reports are now prepared by City Clerk monthly.

Conclusion – Response acknowledged. The City should also prepare a written policy for guidance regarding City Clerk responsibilities and expectations.

- (E) Payroll – Timecards/timesheets were not approved/initialed by an independent individual to verify the actual hours worked. Also, hourly pay rates were not always documented and approved in the City Council minutes record.

Recommendation – Timecards/timesheets should be prepared for all employees and for all hours actually worked. Additionally, all timecards/timesheets should be reviewed by an independent individual to verify actual hours worked. Once reviewed, the independent individual should initial the timecard/timesheet to document approval. Also, all wages should be approved by the City Council and its approval should be documented in the minutes record.

Response – Pay rates are approved by City Council. Time cards are now initialed by the Mayor.

Conclusion – Response accepted.

City of What Cheer

Schedule of Findings

Year ended June 30, 2003

- (F) Disbursements – City Council approval was not always documented in the minutes record and invoices and supporting documentation were not always available to support disbursements made.

Recommendation – All City disbursements should be approved with the approval documented in the City Council minutes. Also, invoices and supporting documentation should be available for all approved disbursements.

Response – Disbursements are approved by City Council at meetings. Bills are taken to council meeting to look over for any questions.

Conclusion – Response accepted.

- (G) Transfers – Fund/account transfers were not approved by the City Council.

Recommendation – All individual fund/account transfers should be approved by the City Council through the budget process and/or by Council resolution with the approval documented in the minutes record.

Response – Resolutions are now made for City Council to approve transfer.

Conclusion – Response accepted.

- (H) Long-term Debt Records – General obligation and revenue note resolutions and registers were not available to determine compliance and the available records were not current.

Recommendation – The City should take the necessary steps to obtain the general obligation and revenue note resolutions to ensure that the City is maintaining the appropriate funds/accounts as required. Additionally, all general obligation and revenue note files, registers and records should be updated and kept current to monitor note activity and amounts due and paid.

Response – The City will take the necessary steps to keep revenue files, registers and records up to date.

Conclusion – Response accepted.

- (I) Information Systems – The following weaknesses in the City's computer-based systems were noted:

The City does not have written policies for:

- requiring password changes because software does not require the user to change logins/passwords periodically.
- time out and/or logoff functions.
- screen saver password use to protect terminals.
- Logging off unattended computer(s).

City of What Cheer

Schedule of Findings

Year ended June 30, 2003

- Changing password(s) every 60 to 90 days.
- Maintaining password privacy.
- Storing system backup tape(s) at an offsite facility.
- Running anti-virus program(s).
- Use of the internet.
- Ensuring only software licensed to the City is installed on City computers.

Also, the City does not have a written disaster recovery plan to help ensure the continuity of City operations in the event of a disaster.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over computer-based systems.

Response – City Clerk and Mayor are the only two with passwords.

Conclusion – Response acknowledged. The City should develop written policies addressing the above items in order to improve the City’s control over computer-based systems.

City of What Cheer

Schedule of Findings

Year ended June 30, 2003

Other Findings Related to Required Statutory Reporting:

- (1) Official Depository – A resolution naming the official depository has been adopted by the City Council. The maximum deposit amount was not exceeded during the year ended June 30, 2003. The bank name has changed and the City has not amended the resolution to update the bank name change.

Recommendation – A new depository resolution should be approved for the name change to ensure continued coverage.

Response – Bank name has been changed on the depository resolution.

Conclusion – Response accepted.

- (2) Certified Budget – Disbursements during the year ended June 30, 2003 exceeded the amounts budgeted in the public works, culture and recreation, general government and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will monitor budget and amend as needed.

Conclusion – Response accepted.

- (3) Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- (5) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Rhonda Thomas, Mayor, Owner of Thomas Grocery	Supplies	\$ 194
Sandra VanPatten, Council member, Spouse of Gary VanPatten	Demolition of theater	4,903

City of What Cheer

Schedule of Findings

Year ended June 30, 2003

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Mayor do not represent a conflict of interest since total transactions were less than \$2,500 during the fiscal year. The transaction with Council Member VanPattens' husband may represent a conflict of interest since it was not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – Sandra Van Patten is no longer on Council and her husband is no longer employed by the City.

Conclusion – Response acknowledged. The City should consult legal counsel to determine the disposition of this matter.

- (6) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (7) Council Minutes – Except as previously noted, no transactions were found that we believe should have been approved in the Council minutes but were not.

City Council minutes were not available for all meetings held and those available were photo copies and not properly signed as required by Chapter 380.7 of the Code of Iowa. For minutes not available, no proof of publication(s) were found as required by Chapter 372.13(6) of the Code of Iowa.

The City went into several closed sessions during the year ended June 30, 2003. However, the minutes record did not document the specific information regarding the closed sessions as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

The What Cheer Library Board minutes were not signed and gross wages were not published.

Recommendation – The City should document and retain minutes records for all City Council meetings, ensure they are original records and are signed as required by Chapter 380.7 of the Code of Iowa and are published as required by Chapter 372.13(6) of the Code of Iowa. Also, the City should ensure all closed meetings are properly documented and the required information is included in the minutes record as required by Chapter 21 of the Code of Iowa.

The What Cheer Library Board minutes should also be signed indicating approval of the content and gross wages should be published in accordance with an Attorney General's opinion dated April 12, 1978.

Response – Library minutes are given to City Council members at each monthly meeting.

Conclusion – Response acknowledged. The City should document and retain minutes records for all City Council meetings and comply with the applicable sections of the Code of Iowa.

City of What Cheer

Schedule of Findings

Year ended June 30, 2003

- (8) Deposits and Investments – Although the City has adopted a written investment policy as required by Chapters 12B and 12C of the Code of Iowa, the policy contains references to outdated Code of Iowa sections.

Recommendation – The City should approve a written investment policy as required by Chapters 12B and 12C of the Code of Iowa and include the proper Code of Iowa references.

Response – City will discuss with the City Council approving an updated policy.

Conclusion – Response accepted.

- (9) Water and Sewer Revenue Notes – As previously noted, the City was unable to locate the water and sewer revenue note resolutions containing the requirements for establishing specific funds/accounts. Consequently, the City has not established the funds normally required by revenue note resolutions. Since the resolutions were not available, we were unable to determine compliance with the provisions of the resolutions.

Recommendation – The City should take the necessary steps to obtain copies of the “Resolutions that Authorize and Provide for the Issuance of the Water and Sewer notes”. Once the resolutions are obtained, the City should ensure the applicable funds/accounts are established as required and any other provisions set out in the resolutions are followed.

Response – The City will maintain all appropriate files to ensure that funds/accounts comply with set resolutions.

Conclusion – Response accepted.

- (10) Employee Benefits Levy – The City disbursed from the Special Revenue, Employee Benefits Fund for Enterprise, Water and Sewer Fund employee benefits during the year ended June 30, 2003.

Recommendation – Employee benefits tax levy collections should only be used for employee benefits for employees who are paid from the General Fund or the Special Revenue, Road Use Tax Fund. Water and sewer employee benefits should be paid directly from the receipts of these funds.

Response – City will comply with levy requirements.

Conclusion – Response accepted.

- (11) City Code of Ordinances – The City has not compiled the City ordinances since 1997.

Recommendation – Chapter 380.8 of the Code of Iowa states a city shall compile a code of ordinances containing all of the city ordinances in effect at least once every five years. The City should compile the city ordinances as required.

Response – We are now in the process of getting an updated City Code.

Conclusion – Response accepted.

City of What Cheer

Schedule of Findings

Year ended June 30, 2003

- (12) Annual Financial Report – Several errors were noted in the Annual Financial Report for the year ended June 30, 2003. This is in part due to the condition of the accounting records and the lack of proper record keeping for the year ended June 30, 2003. However, an amended report does not need to be filed.

Recommendation – The Annual Financial Report should be supported by the City’s accounting records.

Response – The City will prepare and maintain files and reports for all future Annual Reports.

Conclusion – Response accepted.

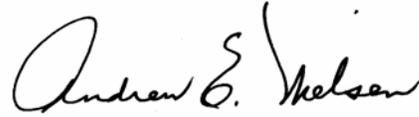
- (13) Petition for Audit – Except as noted, all items included in the petition for the audit have been resolved.

City of What Cheer

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
John G. Vanis, CGFM, Senior Auditor
Sheila M. Jensen, Staff Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial 'A' and 'N'.

Andrew E. Nielsen, CPA
Deputy Auditor of State